

House of Stein

ELECTRONICS LTD.

1969

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STEINTRON
INTERNATIONAL
ELECTRONICS
LTD

Includes
Kelly-Deyong
Sound Corp. Ltd

ANNUAL REPORT



GENERAL OFFICES: 775 Homer Street, Vancouver, B.C., Canada, Telephone (604) 681-7715
JAPAN OFFICES: P.O. Box 176, Kanda, Tokyo

FINANCIAL HIGHLIGHTS

	1969	1968
Gross Sales	\$3,347,537	\$2,212,764
Earnings:		
Before Taxes	\$ 676,706	\$ 340,071
After Taxes	\$ 331,438	\$ 175,912
Net Earnings per Common Share based on		
765,000 shares*	43.3¢	23.0 ¢
815,428 shares	40.6¢	
Cash and Marketable Securities	\$ 428,243	\$ 25,455
Working Capital	\$1,703,945	\$ 309,690
Total Assets	\$4,218,049	\$ 794,406
Stockholders	1005	2
Common Shares Outstanding	815,428	10,000

*See financial statements Note 3

Contents

Financial Highlights	Page 1
Report to Shareholders	Page 3
Financial Review	Page 12
Electronic World of House of Stein	Page 18





Karl Stein
President and Director



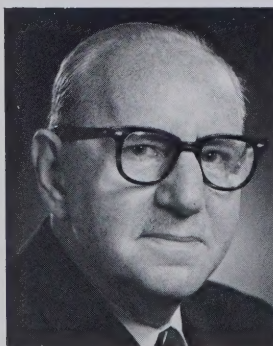
B. N. Tessler
Executive Vice-President and Director



Jacques Barbeau
Secretary and Director



William Clifford Eilers
Director



Rudolf Flusser
Director

TO THE SHAREHOLDERS:

The Directors are pleased to present the Company's Annual Report and audited financial statements for the year ended July 31, 1969.

Summary

For the past eleven years, House of Stein Electronics Ltd. has shown an improvement in sales and earnings each year over the prior year. The past year was no exception: Total sales were \$3,347,537, a 51.3% increase over 1968; earnings were \$331,438, an 88.4% increase over the previous year. The net income of \$331,438 is equivalent to 43.3 cents per share, (based on 765,000 shares outstanding) compared to \$175,912, which was equivalent to 23.0 cents per share in the preceding year.

Operations

The Company enjoyed a remarkably successful year, as did the electronic industry generally. Avant-garde product lines, efficient distribution methods and a vigorous and well-qualified staff combined to substantially increase sales and earnings of House of Stein Electronics Ltd.

The Company's association with Sansui Electric Co. Ltd. continued to prove beneficial. As the exclusive distributor for Sansui in Canada, the Company maintained its leadership in the field of stereophonic component sales.

House of Stein's own "Electra" line, providing a comprehensive selection of electronic components and parts, continued to be well accepted by the Canadian public. The Company successfully developed a complete quality line of magnetic recording tape, including cassettes and cartridge items, for distribution under the "Electra" brand name. Through the facility of our Japan offices, the Company continued to explore for new electronic products. House of Stein's policy of maintaining offices in Japan assured the Company of a competitive buying advantage.

Record sales performances were achieved by all divisions. Through our eight outlets situated in Ontario, Manitoba and British Columbia, our direct consumer sales increased to \$1,573,000 for the current period from \$1,086,000 in 1968.

The import division, through its distribution centres in Toronto and Vancouver, achieved a noteworthy sales increase. Sales for the current year increased to \$1,774,000 from \$1,126,000 in the previous year.



Net profit increased by 88.4% during the year. This resulted from the efforts of dedicated management and staff, which utilized progressive sales and distribution methods to increase gross sales by 51.3%, while holding the increase in cost of sales to 44%.

The industrial department showed satisfactory progress although still in the development stage. With the addition of new equipment, the service department achieved greater economy in product maintenance and is today one of the largest in Canada.

To provide greater fiscal economies as well as modicum of diversification, the Company acquired certain revenue-producing commercial real estate in British Columbia. The cost of these properties was defrayed by the issuance of 50,428 shares of the Company at a value of \$12.00 per share.

Expansion

During the past year House of Stein established four new electronic outlets.

The Company extended its operations to Manitoba in July by opening a completely integrated electronic centre in Winnipeg on Portage Avenue.

With the opening of two additional audio centres in Nanaimo and New Westminster, the Company completed its current expansion program in British Columbia.

In Ontario the Company expanded its distribution network to serve all urban areas of the province.

During the fiscal period, House of Stein successfully concluded an exclusive distributorship arrangement in Montreal for the sale of the Company's products in Quebec and the Maritimes.

A separate industrial division was recently established to supply Canada's expanding demand for industrial electronics.

In May the Company published a 322-page catalogue, the most comprehensive of its type in Canada, which was distributed in Northern Ontario, Manitoba and British Columbia. Increased sales generated by the mail order division contributed significantly to the financial success of the Company during the fiscal period.

In the latter part of the fiscal period the Company incorporated a consumer finance company, Sherbrooke Investment Corporation Limited, to facilitate consumer credit financing.

Outlook

House of Stein anticipates a continuing and vigorous trend of growth in the electronic industry next year with increases in sales, product and market diversification.

The primary objective during the forthcoming fiscal period is to establish a distribution network, with headquarters in Hamburg, Germany, to serve the European Common Market.

The Company is concluding negotiations with leading Japanese manufacturers for exclusive representational rights in Europe. This expansion will also afford the Company greater sales opportunities for its own line of "Electra" components and parts.

Market research shows Germany's affluent consumer market of seventy million people affords a great potential to the Company, particularly since the recent revaluation of German currency makes imports attractively competitive. Past experience with German electronic distributors, coupled with management's knowledge of the German economy, will assist the Company to undertake this expansion. It is anticipated that the European division will be operational during the forthcoming fiscal period.

In Canada, efforts of management will centre on introducing new electronic products and consolidating its national distribution network.

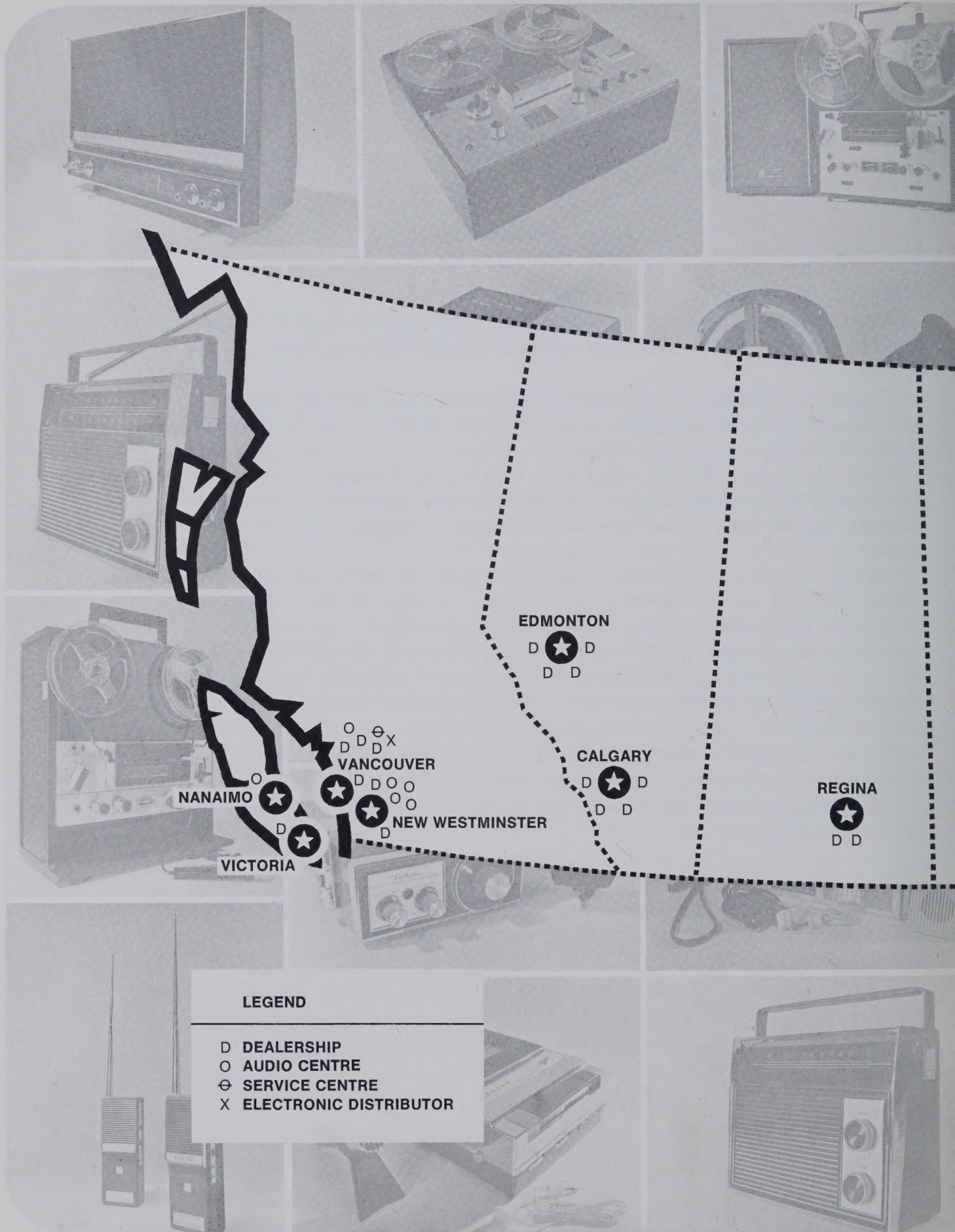
Consideration is now being given to the establishment of a franchise operation to serve less populated urban areas.

While the Company has been successful during the past eleven years, it is recognized that industry which relies on international development is not beyond intranational anti-inflation governmental policies. Experience suggests, however, the Company's annual rate of growth will not be jeopardized by any anticipated anti-inflationary measures.

Market projections, the acceptance of the Company's products and effective merchandising methods indicate a bright future indeed.

We express our appreciation to our customers, our shareholders and staff for helping to make the past fiscal year a successful one.

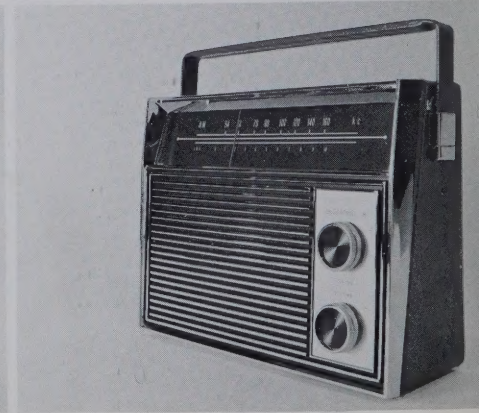
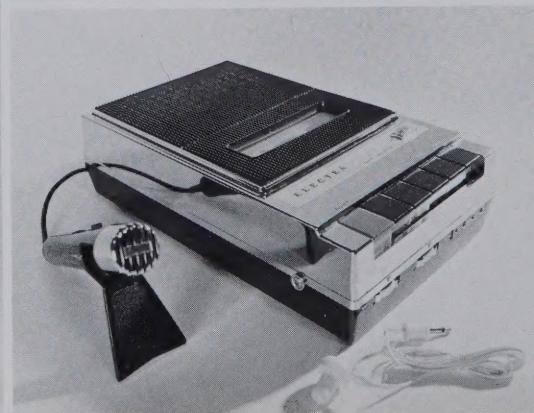
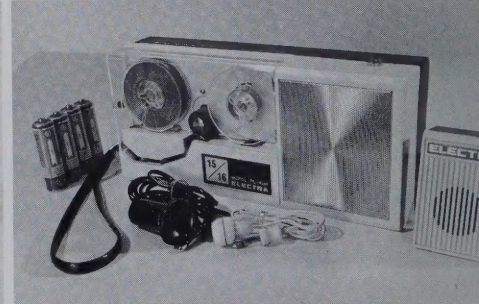
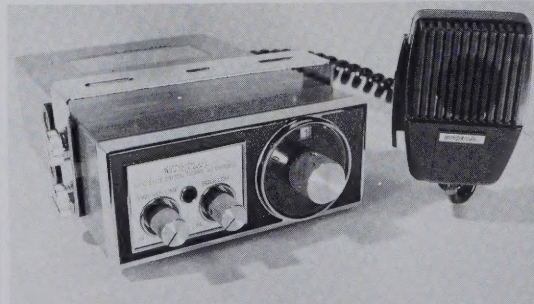
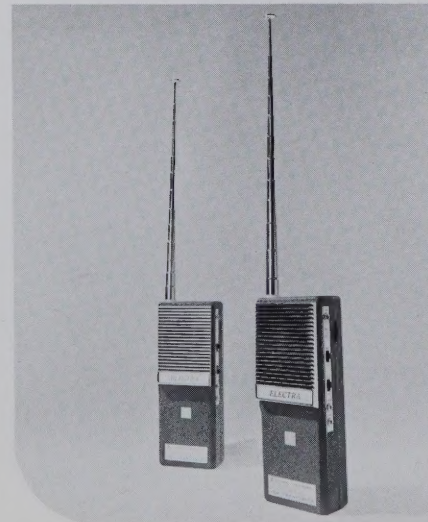
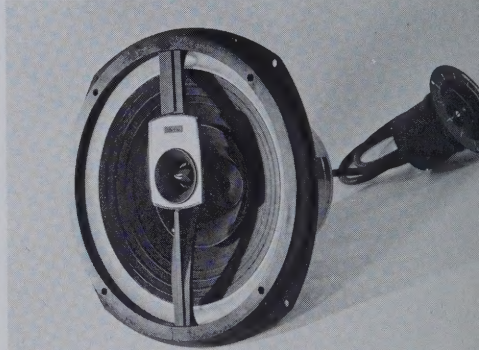
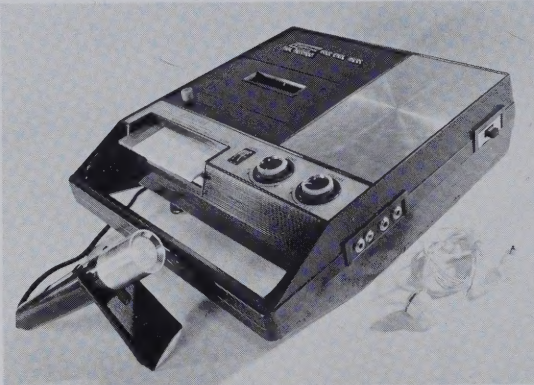
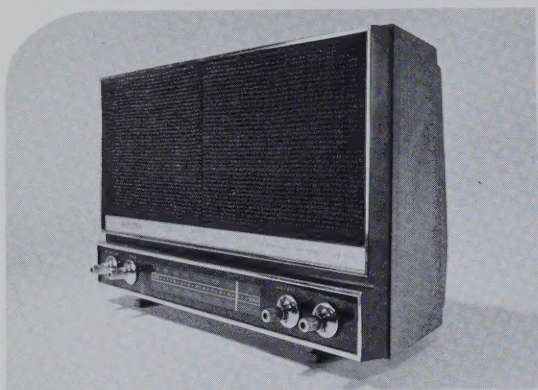




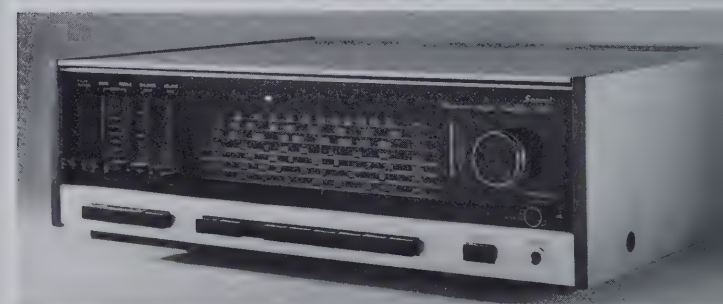
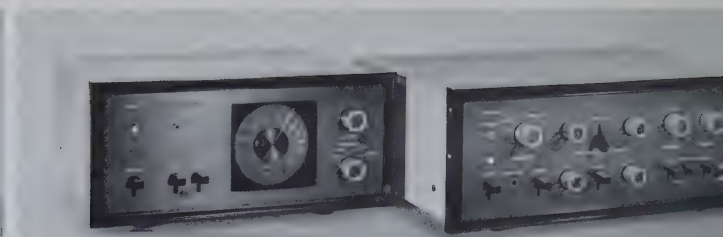
LEGEND

- D DEALERSHIP
- O AUDIO CENTRE
- ⊕ SERVICE CENTRE
- X ELECTRONIC DISTRIBUTOR

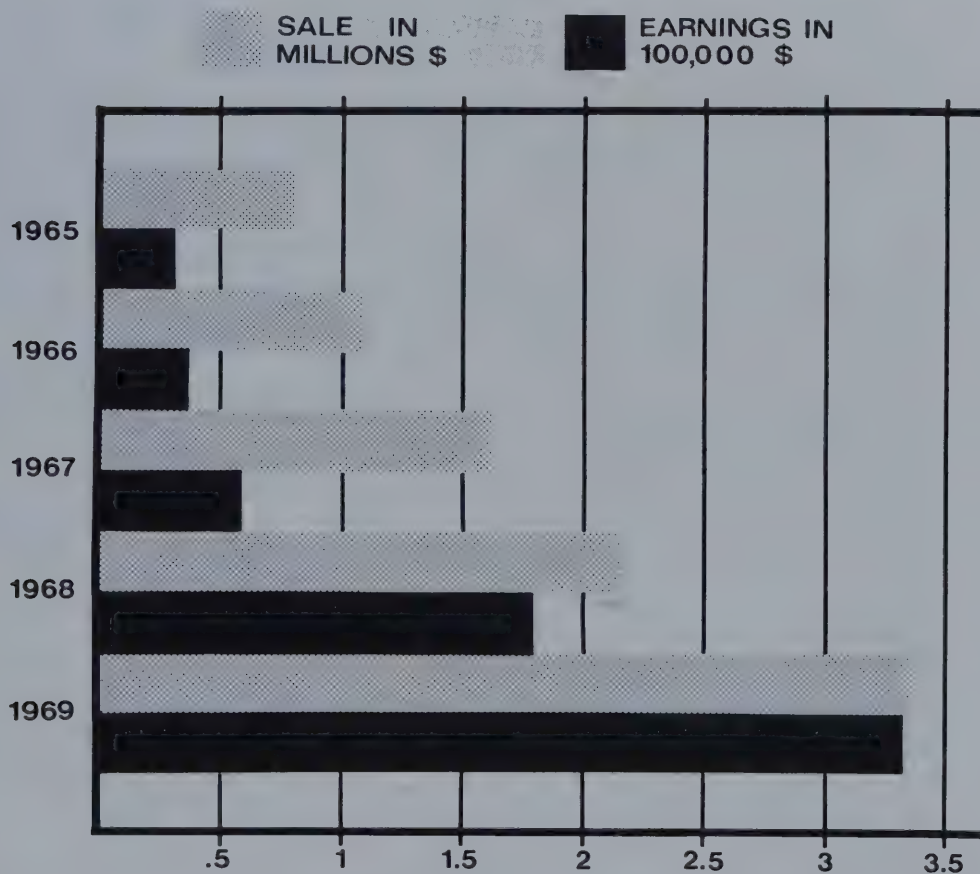
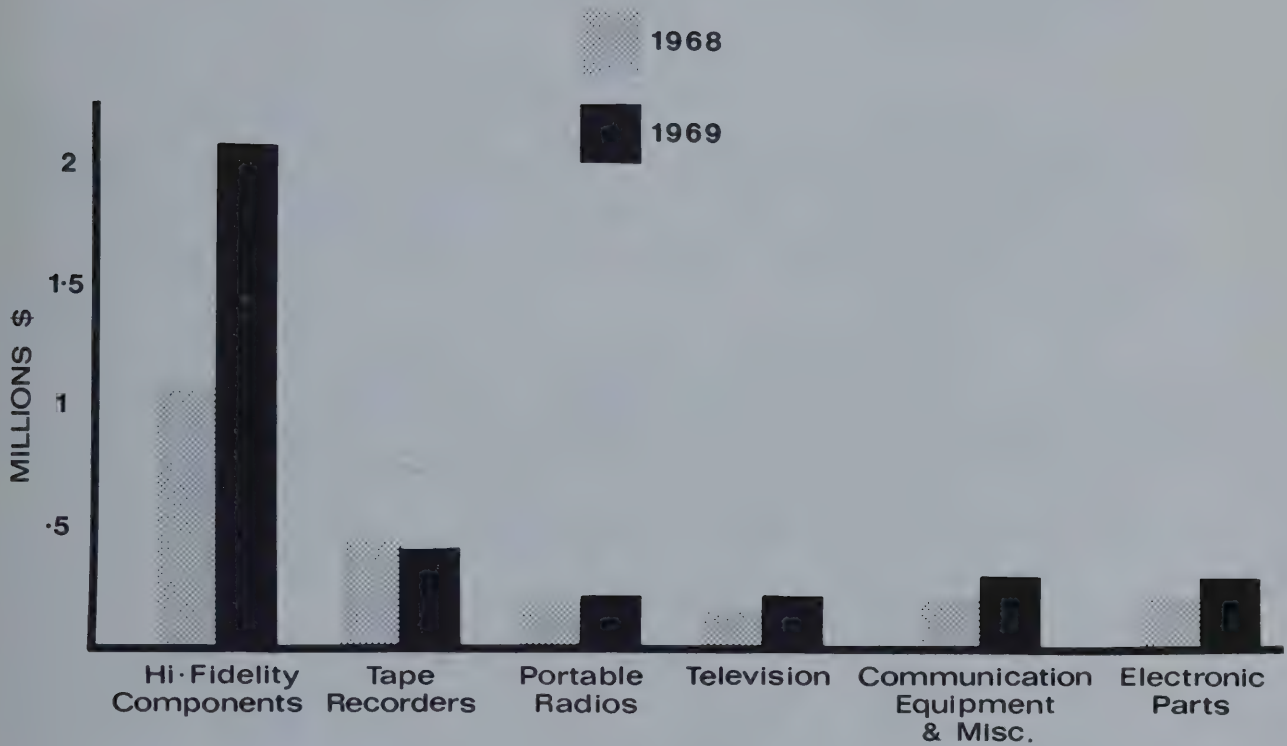








PRODUCT SALE BREAKDOWN:



HOUSE OF STEIN ELECTRONICS LTD.
(Formerly House of Stein Ltd.)

ASSETS

	1969	1968 Unaudited
Current Assets:		
Cash	\$ 28,243	25,455
Term deposit	400,000	—
Accounts receivable:		
Trade	346,571	201,101
Other	9,395	450
Total accounts receivable	355,966	201,551
Due from shareholders	62,735	9,296
Due from Dynamic Development Corporation Ltd. (Note 5)	89,540	—
Inventory at the lower of cost or net realizable value	1,377,146	535,237
Land and building under construction (held for re-sale)	279,292	—
Prepaid expenses	25,796	8,024
Total current assets	2,618,718	779,563
Fixed assets, at cost less depreciation:		
Buildings	956,921	—
Fixtures and equipment	27,851	10,426
Automotive equipment	3,200	10,159
	987,972	20,585
Less accumulated depreciation	14,208	8,975
	973,764	11,610
Land	601,569	—
Leasehold improvements less amortization of \$8,382 (1968—\$5,631)	23,998	3,233
Total fixed assets	1,599,331	14,843
	<u>\$4,218,049</u>	<u>794,406</u>

See accompanying notes to financial statements.

On behalf of the Board:

Auditors' Report to the Shareholders

We have examined the balance sheet of House of Stein Electronics Ltd. as of July 31, 1969 and the statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. Because we were not engaged to make an examination of the company until after July 31, 1968, we were not present to observe the physical inventory taken at that date, although we satisfied ourselves by other means that the inventory valuation at that date was reasonable.

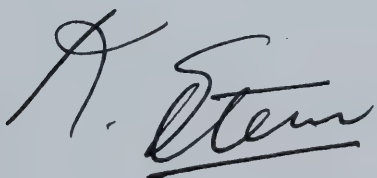
Balance Sheet July 31, 1969

(With comparative unaudited figures for 1968)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1969	1968 Unaudited
Current liabilities:		
Accounts payable and accrued liabilities	\$ 345,792	271,634
Customers' and tenants' deposits	15,960	15,212
Income taxes payable	242,017	170,737
Other taxes payable	22,204	12,290
Mortgage payable on building under construction	270,000	—
Instalments on mortgages and agreements for sale due within one year	18,800	—
Total current liabilities	914,773	469,873
Mortgages and agreements for sale payable (Note 2)	993,643	—
Less instalments due within one year	18,800	—
	974,843	—
Deferred income taxes	36,231	—
Shareholders' equity:		
Capital stock (Note 3):		
6% non-cumulative redeemable preference shares of \$1 par value. Authorized 9,000 shares; issued 6,000	—	6,000
Common shares of no par value. Authorized 2,000,000 shares; issued 815,428 shares	1,652,447	100
Contributed surplus, proceeds from sale of share warrants	6,250	—
Retained earnings, per accompanying statement	633,505	318,433
Total shareholders' equity	2,292,202	324,533
Commitments (Note 4)	\$4,218,049	794,406

Director



Director



In our opinion, these financial statements present fairly the financial position of the company at July 31, 1969 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, British Columbia

November 5, 1969

Leat, Marwick, Mitchell & Co. Chartered Accountants

HOUSE OF STEIN ELECTRONICS LTD.



HOUSE OF STEIN ELECTRONICS LTD.

(Formerly House of Stein Ltd.)

Statement of Earnings

Year ended July 31, 1969

(With comparative unaudited figures for 1968)

	1969	1968 Unaudited
Sales	\$3,347,537	2,212,764
Cost of sales	<u>1,991,260</u>	<u>1,404,708</u>
Gross profit	1,356,277	808,056
Selling, general and administrative expense (Note 6)	<u>698,161</u>	<u>472,849</u>
Operating income	658,116	335,207
Other income:		
Interest earned	9,904	—
Rental income, net (Note 6)	4,205	—
Other	<u>4,481</u>	<u>4,864</u>
	18,590	4,864
Earnings before taxes on income	<u>676,706</u>	<u>340,071</u>
Taxes on income:		
Currently payable	309,037	164,159
Deferred	<u>36,231</u>	<u>—</u>
	345,268	164,159
Net earnings	<u>\$ 331,438</u>	<u>175,912</u>

Statement of Retained Earnings

Balance at beginning of year	\$ 318,433	152,144
Net earnings for the year	<u>331,438</u>	<u>175,912</u>
	649,871	328,056
Adjustment of prior year's income taxes	—	9,623
Share issue expenses less applicable reduction in income taxes	<u>16,366</u>	<u>—</u>
Balance at end of year	<u>\$ 633,505</u>	<u>318,433</u>

See accompanying notes to financial statements.

HOUSE OF STEIN ELECTRONICS LTD.

(Formerly House of Stein Ltd.)

Statement of Source and Application of Funds

Year ended July 31, 1969

(With comparative unaudited figures for 1968)

	1969	1968 Unaudited
Funds provided:		
Net earnings	\$ 331,438	175,912
Add charges not requiring cash expenditure:		
Depreciation and amortization	13,791	4,414
Deferred income taxes	36,231	—
Funds provided from operations	381,460	180,326
Proceeds from sale of automobile	1,150	—
Proceeds of share issues (Note 3)	1,652,347	—
Proceeds from sale of share warrants	6,250	—
Proceeds of long-term debt financing	974,843	—
Total funds provided	3,016,050	180,326
Funds used:		
Purchase of land, buildings and equipment	1,599,429	9,663
Redemption of preferred shares	6,000	—
Cost of public share issue less applicable reduction in income taxes	16,366	—
Adjustment of prior year's income taxes	—	9,623
Total funds used	1,621,795	19,286
Increase in working capital	1,394,255	161,040
Working capital as at beginning of year	309,690	148,650
Working capital as at end of year	\$1,703,945	309,690

See accompanying notes to financial statements.



HOUSE OF STEIN ELECTRONICS LTD.

(Formerly House of Stein Ltd.)

Notes to Financial Statements
July 31, 1969

1. On December 16, 1968, the company changed its name from House of Stein Ltd. to House of Stein Electronics Ltd. and on March 28, 1969 converted to a public company.

2. Mortgages and agreements for sale payable:

(a) **Mortgages:**

National Trust Company, due May 1, 1979, payable in monthly instalments of \$650 including interest at 7½ %	\$ 54,657
United Dominion Investments, due December 15, 1975 payable in monthly instalments of \$655 including interest at 10½ %	52,926
Fidelity Life Assurance Company, due October 1, 1995, payable in monthly instalments of \$2,140 including interest at 7%	313,582
Mutual Life Insurance Company of New York, due February 1, 1993, payable in monthly instalments of \$2,100 including interest at 8%	271,510
	<u>692,675</u>

(b) **Agreements for sale:**

Elias, Archie and Carl Gillette, due December 1, 1978, payable in monthly instalments of \$350 including interest at 8½ %	34,066
Roy Wrigley, due January 15, 1978, payable in monthly instalments of \$2,100 including interest at 8%	266,902
	<u>300,968</u>

Total mortgages and agreements for sale

993,643

Less instalments due within one year

18,800

Long-term debt

\$974,843

3. Capital stock:

(a) **Preference shares:**

On December 12, 1968 the 6,000 6% non-cumulative redeemable preference shares of \$1 par value per share were redeemed for \$6,000 from the proceeds of a debenture issue which was subsequently redeemed.

(b) **Common shares:**

In March, 1969, the authorized share capital of the company was increased from 100,000 common shares without par value to 2,000,000 common shares without par value. Of the 10,000 common shares outstanding, 300 were surrendered to the company by way of gift and the remaining 9,700 shares were subdivided into 485,000 common shares without par value.

HOUSE OF STEIN ELECTRONICS LTD.

(Formerly House of Stein Ltd.)

Notes to Financial Statements, continued
July 31, 1969

Common shares transactions:	Number	Amount
Balance outstanding beginning of year after above-mentioned transactions	485,000	\$ 100
Issued during year:		
For cash, April 23, 1969	280,000	1,047,200
	765,000	1,047,300
For land and buildings, July 15, 1969	50,428	605,147
Balance outstanding end of year	815,428	\$1,652,447

Shares reserved for:

	Number
(i) Share purchase warrants, exercisable at \$5 per share at any time to April 3, 1974	25,000
(ii) Options granted to certain officers and employees, exercisable on a non-cumulative basis at 3,200 shares during the month of October in each of the years 1970 to 1974 inclusive, at \$4 per share in each of the years 1970 to 1972 and \$5 per share in the years 1973 and 1974	16,000
	41,000

4. Commitments:

For the completion of an apartment block approximately \$250,000.

For the purchase of products from Sansui Electric Co. Ltd. of Japan, under an agency agreement dated March 25, 1969, in the minimum amount of U.S. \$500,000 for the first year and a total of U.S. \$1,200,000 for the two year term of the agreement.

5. Subsequent event:

On October 31, 1969 the company acquired 66⅔% of the outstanding common shares of Dynamic Development Corporation Ltd. for \$60. The subsidiary company is currently undertaking a condominium apartment development in the Vancouver area at an estimated cost of \$525,000, which is being temporarily financed by the company.

6. Information on statement of earnings:

(a) Depreciation and amortization charged to:	
Selling, general and administrative expense	\$ 7,832
Rental income, net	5,959
	\$13,791
(b) Interest on long-term debt charged to:	
Selling, general and administrative expense	\$ 2,071
Rental income, net	12,362
	\$14,433
(c) Remuneration to the directors during the year amounted to	\$77,733



THE ELECTRONIC WORLD OF HOUSE OF STEIN

House of Stein Electronics Ltd. is a fully integrated national electronics company distributing a comprehensive range of products throughout Canada. Continuous growth has marked the progress of the Company since 1958 when it was established in British Columbia as a regional hi-fi distributor. Expansion and diversification during the Company's eleven-year history resulted in opening new facilities to serve rapidly increasing demand. Today there are eight outlets in Ontario, Manitoba and British Columbia.

In 1963 House of Stein introduced its own product line under the brand name "Electra." At the present time the Company distributes some 360 electronic items, including "Electra" tape recorders, transistor radios, amplifiers, tuners, microphones, loud speakers, record players, Citizens' Band equipment, recording tape, and miscellaneous audio accessories and parts. In addition to its own "Electra" products, the Company continues to sell and service audio products and components of recognized manufacturers such as Sony, Fisher, Scott, Grundig, Electrovoice, Altec-Lancing, Dual, Garrard, Kenwood, Lafayette and others.

In 1966 the Company obtained the exclusive Canadian distributorship for the entire Sansui line of high performance audio equipment. The Sansui line includes approximately thirty different items with fifteen models of receivers alone, as well as speakers, turntables and other equipment manufactured by Sansui Electric Co. Ltd. of Tokyo, Japan, one of the world's leading manufacturers of high quality audio equipment.

The Company's operations are administered in five separate divisions: The consumer product division; the import division; the service division; the industrial division; and the mail order division. House of Stein Electronics Ltd. has its head office in Vancouver, and regional offices in Toronto and Winnipeg.

The mail order division, which is administered by the head office, is primarily responsible for servicing non-urban areas. This division recently published and widely-distributed a 322-page catalogue. The Company operates a complete equipment service and parts centre. The servicing facilities of House of Stein are equipped not only to provide warranty repairs for products sold by the Company, but also to service other products shipped to the Company by volume retailers such as department stores.

The industrial division was established in 1969 to provide industrial installations of integrated electronic systems and inter-communication equipment. The direct import division is administered by offices in Vancouver and Toronto and primarily serves volume purchasers. The consumer product division provides retail operations through outlets situated at:

258 Yonge Street, Toronto, Ontario

1005 Granville Street, Vancouver, British Columbia

901 Granville Street, Vancouver, British Columbia

743 Columbia Street, New Westminster, British Columbia

135 Commercial Street, Nanaimo, British Columbia

2823 Shaughnessy Street, Port Coquitlam, British Columbia

269 Portage Avenue, Winnipeg, Manitoba



Following major experiments in electronic product merchandising, the Company has evolved an effective and unique product sales method for the Canadian market.

A diversified national distribution network ensures maximum savings in product development, acquisition, and distribution.

Of greater importance, the establishment of a national sales network has permitted the Company to expand its own "Electra" line. As a result, the Company is proud of the contribution it has made in building a market for an exclusive audio-electronic line. House of Stein anticipates distributing its "Electra" line in Europe early in 1970.

The Company's continuing growth is directed by an aggressive and capable team of individuals, each a specialist in a particular sphere of the Company's operations, namely merchandising, purchasing, technical, finance, administration, market research and development.

Auditors

Peat, Marwick, Mitchell & Co.

General Counsel

Barbeau, McKercher, Collingwood & Hanna

Registrar and Transfer Agent

Canada Permanent Trust Company

